

CITY STORES COMPANY

ANNUAL REPORT

Fiscal year ended Feb. 2, 1957

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CORPORATION FILE



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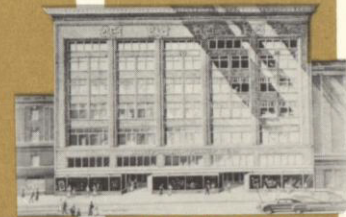
RICHARD'S



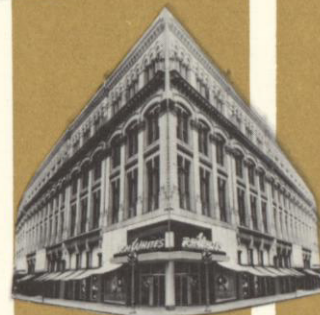
LOVEMAN'S



HEARN'S



KAUFMAN'S



WHITE'S



MAISON BLANCHE



BRY'S



FRANKLIN SIMON



LANSBURGH'S



OPPENHEIM COLLINS



LOWENSTEIN'S

STREET STORIES

THE HISTORY OF THE CITY OF NEW YORK

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CITY STORES COMPANY

*Operating 59
retail units in 15 states*

LIT BROTHERS

MAX ROBB, *President*

Philadelphia, Pennsylvania
Trenton, New Jersey
69th St., Upper Darby, Pennsylvania
Northeast, Philadelphia, Pennsylvania
Camden, New Jersey

MAISON BLANCHE

ISIDORE NEWMAN, II, *President*

New Orleans, Louisiana
Carrollton, New Orleans
Gentilly, New Orleans
Airline Highway, New Orleans
**West Side, New Orleans

LOVEMAN, JOSEPH & LOEB

O. W. SCHANBACHER, *President*

Birmingham, Alabama
Montgomery, Alabama
Bessemer, Alabama

LANSBURGH'S

RALPH L. GOLDSMITH, *President*

Washington, D. C.
Langley Park, Maryland

R. H. WHITE CORPORATION

J. BENSON SAKS, *President*

Boston, Massachusetts
Worcester, Massachusetts

B. LOWENSTEIN & BROS., INC.

STANLEY H. FRIED, *President*

Memphis, Tennessee
Lowenstein's East, Memphis
Lowenstein's South, Memphis
Lowenstein's Home Service, Memphis

RICHARD'S

CHESS LAGOMARSINO, JR., *President*

Miami, Florida
163rd Street, North Miami

KAUFMAN STRAUS COMPANY

ROBERT L. SCHUSS, *President*

Louisville, Kentucky

BRY-BLOCK COMPANY

BERNARD PINCUS, *President*

Memphis, Tennessee

SPECIALTY STORES CO., Inc.

LUDWIG HECHT, *Vice President*

Hearn's, Bronx, New York

CITY SPECIALTY STORES, Inc.

GORDON K. GREENFIELD, *President*

FRANKLIN SIMON

New York, New York
Atlanta, Georgia
Baltimore, Maryland
Boston, Massachusetts
Cincinnati, Ohio
Cleveland, Ohio
East Orange, New Jersey
Garden City, New York
Germantown, Philadelphia
Manhasset, New York
Memphis, Tennessee
Miami Beach, Florida
Philadelphia, Pennsylvania
Seven Corners, Virginia
Washington, D. C.
Westport, Connecticut
**Watchung, New Jersey

OPPENHEIM COLLINS

New York, New York
Buffalo, New York
Cross County, New York
East Orange, New Jersey
Garden City, New York
Hackensack, New Jersey
Haddonfield, New Jersey
Hicksville, New York
Huntington, New York
Morristown, New Jersey
Philadelphia, Pennsylvania
Thruway Plaza, Buffalo
Willow Grove, Pennsylvania
Wilmington, Delaware
*Bayshore, New York
*Green Acres, New York

*To be opened during 1957
**To be opened during 1958

CITY STORES COMPANY MANAGEMENT

DIRECTORS

GUSTAVE G. AMSTERDAM	NATHAN CUMMINGS	GEORGE H. JOHNSON
JAMES H. BECKER	ANTHONY G. FELIX	ISIDORE NEWMAN, II
MURRY C. BECKER	RALPH L. GOLDSMITH	MAX ROBB
DAVID BORTIN	ALBERT M. GREENFIELD	J. BENSON SAKS
HAROLD W. BRIGHTMAN	GORDON K. GREENFIELD	O. W. SCHANBACHER
FRANKLIN F. BRUDER	WILLIAM E. HEATON	ROBERT L. SCHUSS
J. J. CAPRANO	JOSEPH A. W. IGLEHART	SERGE SEMENENKO

OFFICERS

ALBERT M. GREENFIELD	<i>Chairman of the Board and President</i>
GUSTAVE G. AMSTERDAM	<i>Chairman, Executive and Operating Committees</i>
ISIDORE NEWMAN, II	<i>Senior Vice President</i>
MAX ROBB	<i>Senior Vice President</i>
GORDON K. GREENFIELD	<i>Senior Vice President</i>
FRANKLIN F. BRUDER	<i>Vice President and Treasurer</i>
WILLIAM E. HEATON	<i>Vice President</i>
HAROLD W. BRIGHTMAN	<i>Vice President</i>
RALPH L. GOLDSMITH	<i>Vice President</i>
CHESS LAGOMARSINO, JR.	<i>Vice President</i>
O. W. SCHANBACHER	<i>Vice President</i>
MILTON A. KAMSLER	<i>Secretary</i>
IRVING J. ZIPIN	<i>Assistant Secretary</i>
J. KARL FISHBACH	<i>Controller and Assistant Treasurer</i>

CORPORATION OFFICE • 320 Bankers Securities Building • Philadelphia, Pa.
NEW YORK BUYING OFFICE • City Stores Mercantile Co., 132 W. 31st St., N.Y.

TRANSFER AGENT

The Chase Manhattan Bank
 New York, N. Y.

REGISTRAR

Chemical Corn Exchange Bank
 New York, N. Y.

COUNSEL

Folz, Bard, Kamsler,
 Goodis & Greenfield
 Philadelphia, Pa.

AUDITORS

Ernst & Ernst
 New York City

ANNUAL MEETING • May 15, 1957 • 11 A.M. (D.S.T.)
 100 W. 10th Street, Wilmington, Delaware

HIGHLIGHTS OF THE YEAR

	February 2, 1957	January 28, 1956
OPERATIONS		
Net Retail Sales	\$272,119,000	\$251,882,000
Income before Federal Income Taxes	7,045,000*	11,877,000
Federal Income Tax	1,323,000*	5,973,000
Net Income	5,722,000*	5,904,000
Income Applicable to Common Stock	5,672,000*	5,662,000
Income per Average Number of Common Shares	2.25	2.49
Income Reinvested in the Business	2,138,000	2,421,000
DIVIDENDS		
Preferred Stock	\$ 50,000	\$ 242,000
Common Stock	3,534,000	3,241,000
Per share of Preferred Stock	4.25	4.25
Per share of Common Stock	1.40	1.40
FINANCIAL		
Current Assets	\$106,098,000	\$110,177,000
Current Liabilities	32,574,000	31,772,000
Working Capital	73,524,000	78,405,000
Current Ratio	3.3	3.5
Accounts Receivable	\$ 67,292,000	\$ 66,259,000
Bank Advances on Portion of Receivables	10,999,000	—
Inventories	34,904,000	31,417,000
Property and Equipment—net	26,755,000	23,161,000
Long Term Debt	34,610,000	36,560,000
Ownership	67,489,000	65,458,000
Preferred Stock	1,068,000	2,402,000
Common Stock Equity	66,421,000	63,056,000
Common Stock Equity per share	26.31	25.51
Number of Shares Outstanding		
Preferred Stock—at end of year	10,679	24,019
Common—average during year	2,524,000	2,271,000
Common—at end of year	2,524,374	2,471,918

*Including special items
Italics denote deduction

ANNUAL REPORT FOR 1956

April 29, 1957

TO THE STOCKHOLDERS:

The fiscal year, which ended February 2, 1957, has once again seen the Company's sales climb to the highest in its history. Net income, including a gain from the sale of capital assets, was approximately equal to the previous year.

In brief, the past year saw a significant strengthening of management, personnel and organization in the operating units as well as the central corporate office. We believe that this investment will prove most beneficial in the years to follow. The Company's physical expansion and improvement program continued with the acquisition of another department store, the opening of two major suburban units and the culmination of the initial phase of branch expansion in our specialty store group. These and other significant events and activities are referred to more fully in this report.

FINANCIAL MATTERS

Consolidated net retail sales for the past year (53 weeks) were \$272,119,000 compared with \$251,882,000 the prior year (52 weeks), an increase of 8.0%.

Consolidated income applicable to common stock was \$5,672,000 compared with \$5,662,000 in the previous year. Pre-opening expenses for new branches, a larger Lifo charge, and the generally increased cost of doing business, accounted largely for lower earnings from retail operations.

Income per share of Common Stock, based on average shares outstanding during the year, after Preferred Stock dividends was \$2.25 compared with \$2.49 for the previous year.

We averaged 253,000 more common shares than in the prior year due to conversions of preferred stock into common stock.

The common stock dividend was paid at the rate of \$1.40 per share, the same rate as for the past six years.

The Company's financial condition continued strong and stable. The rate of increase in receivables and inventories was moderate in spite of additional units and greater volume of business. Working capital was \$73,524,000 compared with \$78,405,000 the prior year and the current ratio was 3.3 as compared with 3.5.

During the year we entered into revolving credit agreements with banks under which the Company received \$10,999,000 against \$12,221,000 of our installment receivables.

During the past year, differences in the accounts receivable records of B. Lowenstein & Bros., Inc., Memphis, were disclosed. Investigations of the nature of these differences and possibility of recovery are as yet uncompleted. There has been set up in our financial report a suspense item of \$866,000 pending a conclusion of this matter and we believe the final disposition will result in little, if any, effect on shareholders' equity.

STORE AND OPERATING MATTERS

The program of improving the appearance and efficiency of our main stores continues with beneficial results. Fixtures have been modernized, departments rearranged and other facilities improved in order to increase our selling capacity and customer service.

To achieve greater efficiency and productiveness and to control rising costs, engineering studies of service functions, covering space utilization, mechanization and latest systems and methods techniques in connection with receiving, marking and warehouse facilities are receiving considerable attention and action. Our B. Lowenstein and Richard's organizations completed up-to-date decentralized receiving and marking facilities in their warehouses. Lit Brothers and Lansburgh's are presently engaged in the initial stages of a similar modernization program of their service functions.

Our Maison Blanche store in New Orleans opened a 68,000 square foot store on Airline Highway on November 2, 1956. This new unit is showing indications of exceeding our expectations. A new store in the West Bank area of New Orleans will be completed in the Spring of 1958. The major program of improvement to the Maison Blanche store on Canal Street will be completed this Fall, by a six-story building addition which will add 78,000 square feet of space to the downtown operation opening all selling floors to a block-long view.

This will result in greatly improved physical attractiveness of the main store and the addition of needed space will permit expansion of many departments and facilities. This completely modernized plant will further strengthen the dominant position of this unit in this tremendously important trading area.

The South store unit of B. Lowenstein in Memphis, consisting of 72,000 square feet, was opened in Whitehaven Plaza on August 2, 1956. Although initial results were moderate, business has continued to increase and the full potential of this unit will be felt as the residential community develops in the area. A program for creating a greatly enlarged and thoroughly modern main store plant is in the planning stages.

On April 12, 1957 our latest major new store and the first suburban store of Richard's in Miami was opened in the 163rd Street Shopping Center in North Miami. The construction and fixturing of this 88,000 square foot store presents a striking departure in department store design and embodies the most advanced concept of lighting, color and space arrangement. The business on opening day and immediately thereafter has already given indication of the wholesome acceptance of this unit by its customers.

To Lit Brothers' 69th Street store has been added additional selling space, permitting a more efficient arrangement of selling departments. A fourth floor is to be constructed which will contribute another 30,000 square feet of selling area, available in Fall, 1957.

As of October 27, 1956 we acquired the controlling interest in Hearn Department Stores Corporation, Inc. by an exchange of our holdings of capital stock of City Specialty Stores, Inc. for new Participating Preferred Stock of Hearn's, which thereupon changed its corporate name to Specialty Stores Company, Inc. This corporation operates the Hearn's-Bronx store, a major department store in the heavily populated Bronx area of New York City. Operations, which are included in the Company's consolidated results since October 27, 1956 have been favorable.

The past year has been one of vast improvement in business and profits for our specialty store organization, City Specialty Stores, Inc. Sales for this company increased 8.9% and operating net profits increased 23.6% over the previous year. A major program of expansion was successfully completed by the opening of four new Franklin Simon stores in Baltimore, Maryland; Seven Corners, Fairfax County, Virginia (outside Washington, D. C.); Cincinnati, Ohio and Manhasset, Long Island. Three new Oppenheim Collins branches were likewise

opened in Thruway Plaza, Buffalo, New York; Willow Grove Center, northwest of Philadelphia and Hicksville, Long Island. Leases have recently been executed for branches in the Green Acres Shopping Center in Valley Stream, Long Island, and in Bayshore, in Suffolk County, Long Island, formerly the Hearn-Bayshore store. These stores are to be opened by Fall of 1957. A new lease has been entered into for a Franklin Simon branch in Watchung, New Jersey, to be opened in 1958. Our City Specialty Stores organization has achieved excellent progress in operating results during the past year and has fully justified the policy of expansion of that company. Continued additional units will be undertaken under favorable terms and in good locations.

MANAGEMENT AND ORGANIZATIONAL MATTERS

In October, 1956 Franklin F. Bruder, formerly Vice President for Corporate Control of R. H. Macy & Co., Inc., was elected Vice President and Treasurer and a Director of the Company. In the same month, William E. Heaton, formerly Merchandise Manager of Burdine's, was elected Vice President and General Merchandise Manager and a Director of the Company. J. Benson Saks, an officer of Bankers Securities Corporation, was elected President of R. H. White's in Boston. William S. Darrow, formerly Controller of Gimbel's New York, joined our headquarters organization as Manager of Operations and Research.

On January 31, 1957 Ben R. Gordon's resignation was accepted as President and Director of the Company and the Board of Directors thereupon elected your Chairman to serve, in addition, as President of your Company. Gustave G. Amsterdam, President of Bankers Securities Corporation, and a Director of your Company for the past 16 years, was named Chairman of the Executive and Operating Committees and Max Robb, President of Lit Brothers, I. I. Newman, II, President of Maison Blanche, and Gordon K. Greenfield, President of City Specialty Stores, Inc., were made Senior Vice Presidents. These gentlemen, together with Mr. Bruder and your Chairman, comprise the Executive and Operating Committees of the Company.

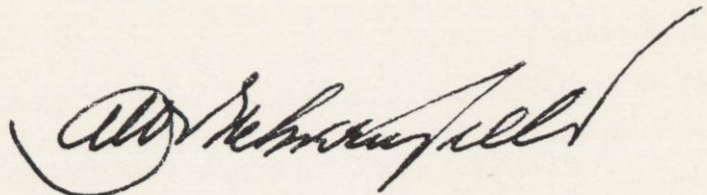
Stanley H. Fried, formerly Vice President for Operations of Sterling-Lindner-Davis of Cleveland, was elected President and a Director of B. Lowenstein & Bros., Inc. replacing Aaron R. Scharff, who had resigned. Mr. Fried will join with Philip deJourné, who was named Executive Vice President and General Merchandise Manager early in 1956, in forming an effective management team for this unit. I. I. Newman, II, President of our Maison Blanche store, New Orleans, was elected Chairman of the Board of B. Lowenstein & Bros., Inc.

In order to strengthen the Lit Brothers organization, so as to meet the increased management responsibilities resulting from its four-store branch operation, Bernard Litvak was relieved of his merchandising functions and appointed Executive Vice President and General Manager and Harold Natkin has become Vice President and General Merchandise Manager. Other organizational improvements were made in merchandising, financial and operating functions.

The Company has had no formal retirement or pension plan, although each of the stores has informal plans in effect under which long service employees are rewarded at retirement age. The Company is undertaking a study with the assistance of qualified actuarial and pension plan experts which will lead to the inauguration of a formal retirement and pension program at an appropriate time.

We look toward the coming years with confidence but with the realism that there is much to be accomplished to place us in the forefront of our great and challenging industry. We are continuously strengthening our organization and method of operating to achieve this goal at the earliest time possible. We record our thanks to our customers, our employees, our vendors and our stockholders — all those who cooperate in making our success possible.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "A. Litvak", written in a cursive style with a large, looping initial "A".

Chairman of the Board and President

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF INCOME AND INCOME REINVESTED IN BUSINESS

	Year Ended (53 Weeks) February 2, 1957	Year Ended (52 Weeks) January 28, 1956
Net retail sales (including leased departments) . . .	\$272,119,146	\$251,881,503
Deduct:		
Cost of goods sold and operating expenses		
less carrying charges	262,322,818	236,664,654
Depreciation and amortization	2,571,888	2,403,206
Interest and debt expense	1,990,658	1,530,306
	<u>266,885,364</u>	<u>240,598,166</u>
	5,233,782	11,283,337
Portion of earnings of unconsolidated subsidiaries—Note C:		
Distributed as dividends	431,000	270,000
Undistributed	158,367	—
Gain from disposal of capital assets	58,858	22,309
Miscellaneous other income	162,440	325,895
Minority share of net income—Note J	210,921	24,051
Income before federal income taxes	5,833,526	11,877,490
Federal income taxes—estimated—Notes E and F . . .	2,313,222	5,973,093
Net income	3,520,304	5,904,397
Special items:		
Profit on sale of real estate by an unconsolidated subsidiary, net of state tax applicable thereto—Note C (distributed as dividend \$750,000; undistributed \$672,408)	1,422,408	—
Reduction in federal income taxes due to change in method of tax accounting for bad debts—Note F . . .	990,000	—
Minority share of special items—Note J	211,000	—
Net income and special items applicable to City Stores Company—Note J	5,721,712	5,904,397
Dividends paid on Preferred Stock—\$4.25 per share . .	49,723	242,266
Balance applicable to Common Stock	5,671,989	5,662,131
Dividends paid on Common Stock—\$1.40 per share . .	3,533,900	3,240,757
Balance reinvested in business	2,138,089	2,421,374
Income reinvested in business at beginning of year . .	33,200,521	30,863,910
Miscellaneous items—net	78,428	84,763
Income reinvested in business at end of year—		
Notes C, E, F and G	<u>\$ 35,417,038</u>	<u>\$ 33,200,521</u>

Italics denote deduction.

CITY STORES COMPANY

STATEMENT OF

ASSETS	February 2, 1957	January 28, 1956*
CURRENT ASSETS		
Cash	\$ 12,475,652	\$ 10,896,463
U.S. Government securities	38,283	20,200
Accounts receivable, customers and others, including for 1957, \$12,221,382 assigned to banks less \$10,999,243 received from banks under agreements; less allowances for doubtful of \$2,961,226 and \$2,842,125 respectively—Note A	56,292,616	66,259,166
Merchandise inventories—Note B	34,903,549	31,416,633
Supplies and prepaid expenses	2,388,365	1,584,127
TOTAL CURRENT ASSETS	106,098,465	110,176,589
INVESTMENTS AND OTHER ASSETS		
Investments in and receivables from unconsolidated subsidiaries—see page 12—and Note C	1,293,275	152,491
U.S. Government securities deposited as security under lease	141,334	75,750
Mortgages receivable, sundry investments and other items—Note D	520,283	316,244
Refundable income and excess profits taxes of prior years—estimated—Note E	875,365	876,886
	<u>2,830,257</u>	<u>1,421,371</u>
PROPERTY AND EQUIPMENT		
Land, buildings, leaseholds, fixtures and equipment—at cost	41,919,951	36,304,854
Less accumulated depreciation and amortization	<u>15,164,617</u>	<u>13,143,773</u>
	<u>26,755,334</u>	<u>23,161,081</u>
Unamortized Debt Expense	234,493	244,895
	<u>\$135,918,549</u>	<u>\$135,003,936</u>

AND CONSOLIDATED SUBSIDIARIES

FINANCIAL CONDITION

LIABILITIES	February 2, 1957	January 28, 1956*
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 18,394,759	\$ 17,811,101
Federal income taxes—estimated—Notes E and F . .	6,733,687	8,536,545
Notes payable to banks	4,879,667	4,250,000
Current portion of long-term debt	2,566,078	1,174,000
TOTAL CURRENT LIABILITIES . .	32,574,191	31,771,646
 LONG-TERM DEBT		
Notes payable—Note G	30,200,000	32,100,000
4% Sinking Fund Debentures (subordinated)— payable \$300,000 annually	3,900,000	4,200,000
Mortgages payable	509,888	260,000
	34,609,888	36,560,000
 RESERVES		
For redemption of trading stamps	—	262,213
For restoration of leased properties	441,899	441,899
	441,899	704,112
 MINORITY INTERESTS		
Preferred stock (par value)	195,600	325,800
Common stock equities	608,103	184,421
	803,703	510,221
 OWNERSHIP		
Preferred stock—\$100.00 par value; 4¼ % Convertible— authorized 40,350 shares; outstanding 10,679 shares (after deducting 635 shares in treasury)—Note H .	1,067,900	2,401,900
Common stock—\$5.00 par value—authorized 3,000,000 shares; outstanding 2,524,374 shares (after deducting 12,423 shares in treasury)—Note H	12,621,874	12,359,593
Other capital	18,382,056	17,495,943
Income reinvested in business—Notes C, E, F and G .	35,417,038	33,200,521
	67,488,868	65,457,957
	\$135,918,549	\$135,003,936

*Certain accounts reclassified

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF OTHER CAPITAL

	Year Ended February 2, 1957
OTHER CAPITAL	
Balance at January 28, 1956	\$17,495,943
Excess of par value over cost of preferred stock reacquired	857,949
Miscellaneous credits—net	28,164
Balance at February 2, 1957	<u>\$18,382,056</u>

UNCONSOLIDATED REAL ESTATE SUBSIDIARIES COMBINED STATEMENT OF FINANCIAL CONDITION

ASSETS	February 2, 1957	January 28, 1956
Cash	\$ 95,002	\$ 614,854
Due from tenants and others	81,171	81,448
Mortgage receivable	968,005	339,078
Prepaid expenses	90,391	26,954
Unamortized mortgage expense	118,161	135,412
Land, buildings, leaseholds and equipment—at cost	29,294,444	30,397,413
Less accumulated depreciation and amortization	7,858,325	7,999,637
	<u>21,436,119</u>	<u>22,397,776</u>
	<u>\$22,788,849</u>	<u>\$23,595,522</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 372,846	\$ 457,273
Federal income taxes—estimated	189,065	320,096
Mortgages and loan payable (current portions \$782,571 and \$799,237 respectively)	20,933,663	22,608,684
Equity of City Stores Company:		
Advances from parent companies	324,038	74,189
Capital stocks and surplus	969,237	135,280
	<u>1,293,275</u>	<u>209,469</u>
	<u>\$22,788,849</u>	<u>\$23,595,522</u>

Long-term leases: At February 2, 1957, there were 5 leases on real estate properties with terms expiring more than three years from that date at aggregate minimum annual rentals of approximately \$171,000 plus, in certain instances, charges for taxes and insurance.

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

February 2, 1957.

Note A—During the year, the Company and certain of its subsidiaries entered into agreements with various banks providing, in effect, for a form of revolving credit under which specific accounts receivable are assigned to the banks and the banks remit to the companies amounts equal to 90% of the accounts assigned, withholding 10% of the uncollected balances. So long as the agreements continue in effect, the Company and such subsidiaries are obliged to accept reassignment of any accounts in default (as defined).

Note B—Merchandise inventories were determined generally according to the retail inventory method and were priced in substantial part according to the LIFO method, and the balance generally at the lower of cost or market. Inventories priced according to the LIFO method are stated this year at \$4,652,280 and last year at \$4,151,170, less than they would have been if they had been priced at the lower of cost or market.

Note C—Investments in unconsolidated subsidiaries at February 2, 1957 are carried in the statement of financial condition at amounts equal to the recorded net assets of such subsidiaries, whereas such investments as of January 28, 1956 were stated at cost less appropriate reserves. Further, the statement of income for the year ended February 2, 1957 includes the undistributed net income for the year of all unconsolidated subsidiaries, while the statement of income for the preceding year reflects the undistributed income of only two unconsolidated subsidiaries. The change during the year in the method of accounting with respect to unconsolidated subsidiaries had the effect of increasing net income for the year by approximately \$99,000 over what it would have been under the method formerly employed, and resulted in a credit to consolidated income reinvested in business of approximately \$57,000, representing accumulated undistributed net income of unconsolidated subsidiaries at the beginning of the year. Net income and special item (\$1,422,408) of unconsolidated subsidiaries aggregated \$2,011,775 for the year ended February 2, 1957, and net income of such subsidiaries for the preceding fiscal year amounted to \$329,221.

Note D—A mortgage receivable of \$267,018 is assigned as additional collateral for a mortgage payable of \$357,888 included in long term debt.

Note E—In 1952 Lit Brothers (formerly a subsidiary, now a division of City Stores Company) received a Revenue Agent's report with respect to its federal income tax returns filed for the fiscal years 1944 through 1948, in which adjustments were proposed which would result in net deficiencies in federal and state taxes of approximately \$5,525,000, exclusive of interest (as to which deficiencies a reserve of \$540,000 was provided in prior years) and in which it was proposed to disallow claims for refund of taxes on income included in the statement of financial condition in the amount of \$782,000. Protest has been filed by the Company with respect to the proposed adjustments and disallowances of claims, except certain adjustments involving approximately \$450,000 of tax liability. During the year 1955, the Company negotiated a satisfactory settlement of the matter with the Appellate Division of the Regional Commissioner's Office which, if finally approved, would have no material adverse effect on these financial statements. However, certain aspects of such settlement are subject to review and acceptance by the Chief Counsel of the Internal Revenue Service and the Joint Committee on Internal Revenue Taxation.

The amounts of liability for federal and state taxes on income reflected in these financial statements include no provision for additional assessments of prior years' taxes against City Stores Company and/or its subsidiaries, except as above set forth.

NOTES TO FINANCIAL STATEMENTS (Continued)

Note F—During the year, those divisions and subsidiaries of the Company which had not heretofore used the reserve method of tax accounting for bad debts elected to adopt such method, resulting in a deduction for federal income tax purposes of a substantially greater amount with respect to bad debts than is reflected in the statement of income. The non-recurring reduction in federal income taxes effected solely as a result of this change amounts to approximately \$990,000.

As a result of the exchange during the year of the Company's stockholdings in City Specialty Stores, Inc. for participating preferred shares in Specialty Stores Company, Inc., as more fully outlined in Note J and the President's letter, a substantial part of the income for the year of certain of the Company's consolidated subsidiaries will be offset in a consolidated income tax return by operating loss carry-overs. The consequent reduction in federal income taxes for the year reflected in the financial statements is approximately \$890,000.

The parent and certain subsidiary companies have elected to use one of the accelerated depreciation methods permitted by the Internal Revenue Code for tax purposes, but have continued to use the straight-line method for financial accounting purposes. The federal income tax applicable to the excess of the depreciation deductions to be claimed in the federal income tax returns for the year, over the amount reflected in the statement of income, is approximately \$220,000, and the tax applicable to the accumulated excess as of February 2, 1957 is approximately \$500,000.

Note G—Annual maturities under loan agreements with the Prudential Insurance Company of America and the First National Bank of Boston aggregate \$1,900,000 from 1957 to 1970, and the balance is due in 1971. The loan agreements provide, among other things, for (1) the maintenance of minimum consolidated working capital, (2) restrictions on the purchase, redemption or other acquisition of either class of the Company's stock except preferred stock as may be necessary to meet the sinking fund requirements, and (3) restrictions on the payment of cash dividends on the Company's Common Stock. Consolidated net earnings (as defined) available for payment or declaration of Common Stock dividends during the fiscal quarter following February 2, 1957 aggregate \$3,052,375.

Note H—The conversion rights under the Company's 4¼% Convertible Preferred Stock may be exercised on or before February 1, 1966 for shares of Common Stock of the Company on the basis of specified common share valuations.

The Company's 4¼% Convertible Preferred Stock is entitled to the benefit of a sinking fund and contains, among other things, provisions restricting and limiting funded debt, issuance of additional shares of Preferred Stock, authorization of mergers or consolidations, etc.

The authorized shares of Common Stock include 41,073 shares reserved for issuance upon conversion of the 4¼% Convertible Preferred Stock.

Note I—At February 2, 1957, the Company and its consolidated subsidiaries had 73 leases on real estate properties (exclusive of intercompany leases) with terms expiring more than three years from that date. The aggregate minimum annual rental under such leases amounted to approximately \$2,947,000, plus, in certain instances, charges for taxes, insurance, and additional rental based on a percentage of sales over a fixed amount.

Note J—As of October 27, 1956, the Company transferred its investments, representing approximately a 98% interest in City Specialty Stores, Inc. to Specialty Stores Company, Inc. (formerly Hearn Department Stores, Inc.) in exchange for 1,168,112 shares of participating preferred stock of Specialty Stores Company, Inc. Holders of the participating preferred shares of Specialty Stores Company, Inc., as a group, are entitled to receive, on the basis of the shares of that company presently outstanding, approximately 85% of any dividends declared, and, in event of the liquidation of the issuer, an amount equal to \$10.00 per share in priority over the shareholders of any other class, plus approximately 85% of any remaining assets. The statement of income includes the operations of City Specialty Stores, Inc. and its consolidated subsidiaries for the entire year and the operations of Specialty Stores Company, Inc. and its other subsidiaries from October 27, 1956, the date of acquisition.

ERNST & ERNST

120 BROADWAY
NEW YORK

Board of Directors

City Stores Company

Philadelphia, Pennsylvania

We have examined the consolidated statement of financial condition of City Stores Company and its consolidated subsidiaries as of February 2, 1957, and the related statements of income and income reinvested in business, and of other capital for the fiscal year (53 weeks) then ended. The financial statements include the accounts of Specialty Stores Company, Inc. and certain of its subsidiaries and the accounts of B. Lowenstein & Bros., Inc. as reported upon by other independent accountants. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records (excepting those reported upon by other accountants) and such other auditing procedures as we considered necessary in the circumstances.

With respect to the financial statements of B. Lowenstein & Bros., Inc., the examining accountants have reported that it is not possible for them to express an opinion as to the fairness of the balance sheet of Lowenstein's taken as a whole and the related statements of income and earned surplus for the year. The balance sheet includes a suspense account in the approximate amount of \$866,000, representing the aggregate of differences disclosed during the year in the accounts receivable records but retained as an asset pending completion of an investigation of the nature of such differences and possibility of recovery, but does not include a liability for professional services rendered in connection therewith and billed in the approximate amount of \$65,000.

With the foregoing explanation as to the statements of B. Lowenstein & Bros., Inc. and based on the reports of other accountants as to Specialty Stores Company, Inc. and subsidiaries, it is our opinion that the accompanying consolidated statement of financial condition (in which the accounts of Lowenstein's are relatively not significant) presents fairly the financial position of City Stores Company and its consolidated subsidiaries at February 2, 1957, and, subject to the result of disposition of the suspense account and unrecorded liability for professional services mentioned in the preceding paragraph, that the accompanying consolidated statement of income and income reinvested in business presents fairly the results of operations for the year ended February 2, 1957, all in conformity with generally accepted accounting principles which principles have been applied on a consistent basis except for the changes (in which we concur) in the income-tax accounting for bad debts as explained in Note F, and the recognition of income of certain unconsolidated subsidiaries as explained in Note C, of notes to financial statements.

ERNST & ERNST

New York, N. Y.

April 22, 1957

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

HISTORICAL COMPARISON

OPERATIONS	February 2, 1957	January 28, 1956	January 29, 1955	January 30, 1954	January 31, 1953	February 2, 1952
Net Retail Sales	\$272,119,000	\$251,882,000	\$241,755,000	\$233,227,000	\$232,432,000	\$219,243,000
Index of Sales	124%	115%	110%	106%	106%	100%
Income before Federal Income Taxes	7,045,000*	11,877,000	10,353,000	9,066,000	8,983,000	6,144,000
Federal Income Tax	1,323,000*	5,973,000	4,931,000	4,079,000	4,766,000	3,172,000
Net Income	5,722,000*	5,904,000	5,422,000	4,987,000	4,217,000	2,972,000
Income Applicable to Common Stock	5,672,000*	5,662,000	4,980,000	4,510,000	3,733,000	2,525,000
Income per Average Number of Common Shares	2.25	2.49	2.40	2.20	1.91	1.38
Income Reinvested in Business	2,138,000	2,421,000	2,053,000	1,636,000	856,000	223,000
DIVIDENDS						
Preferred Stock	50,000	242,000	442,000	477,000	484,000	447,000
Common Stock	3,534,000	3,241,000	2,927,000	2,874,000	2,877,000	2,748,000
Per Share:						
Preferred Stock	4.25	4.25	4.25	4.25	4.25	4.25
Common Stock	1.40	1.40	1.40	1.40	1.40	1.40
FINANCIAL						
Current Assets	\$106,098,000	\$110,177,000	\$ 96,862,000	\$ 88,353,000	\$ 86,611,000	\$ 78,796,000
Current Liabilities	32,574,000	31,772,000	26,314,000	24,544,000	26,017,000	23,798,000
Working Capital	73,524,000	78,405,000	70,548,000	63,809,000	60,594,000	54,998,000
Current Ratio	3.3	3.5	3.7	3.6	3.3	3.3
Accounts Receivable	\$ 67,292,000	\$ 66,259,000	\$ 56,062,000	\$ 48,836,000	\$ 45,997,000	\$ 40,808,000
Bank Advances on Portion of Receivables	10,999,000	—	—	—	—	—
Inventories	34,904,000	31,417,000	29,559,000	26,663,000	27,410,000	26,543,000
Property and Equipment— Net	26,755,000	23,161,000	23,566,000	25,524,000	24,135,000	25,719,000
Long Term Debt	34,610,000	36,560,000	32,768,000	30,242,000	27,036,000	23,019,000
Ownership	67,489,000	65,458,000	63,088,000	61,065,000	59,496,000	58,855,000
Preferred Stock	1,068,000	2,402,000	9,014,000	11,182,000	11,311,000	11,533,000
Common Stock Equity	66,421,000	63,056,000	54,074,000	49,883,000	48,185,000	47,322,000
Common Stock Equity per Share	26.31	25.51	25.07	24.29	23.47	23.03
Number of Shares						
Outstanding at end of year						
Preferred Stock	10,679	24,019	90,148	111,815	113,105	115,330
Common Stock	2,524,374	2,471,918	2,157,018	2,053,857	2,052,990	2,054,753

*Including special items.
Italics denote deduction.

